

MINUTES
CABINET COUNCIL ON ECONOMIC AFFAIRS

November 30, 1981

8:45 a.m.

Roosevelt Room

NSC Review Completed.

Attendees: The Vice President, Messrs. Regan, Haig, Baldrige, Donovan, Block, Weidenbaum, Anderson, Porter, Harper, Trent, Murphy, Gray, Hormats, Leland, Kudlow, Hopkins, Cribb, Bailey, Thomas, Dederick, Baroody, Garrett, Gribbin, Hemel, and Ms. Rozbicki.

1. Poland: Economic and Financial Situation

The Council reviewed a paper, prepared by the Departments of State and the Treasury, on the political and economic situation in Poland. Mr. Hormats' presentation focused on the two-fold nature of the Poles current economic problems: labor instability and shortages of food and spare parts. He added that politically other countries are viewing the Polish experiment in political liberalization with less enthusiasm as her economic difficulties have deepened. He also outlined briefly the dimensions of Poland's prospective financing problems and the immediate problem of providing adequate feed to maintain the Polish chicken industry.

Mr. Leland's presentation focused on what he termed the basic problem — to what extent are Polish requirements for outside assistance likely to continue in the future. He outlined the Solidarity estimates of Polish external assistance needs in 1982, the current exposure of U.S. and foreign commercial banks, existing cross default clauses in commercial banks' Polish loans, the potential for providing assistance in the form of surplus agricultural commodities, the attitude toward additional assistance on the part of several European creditor nations, and likelihood and timing of Polish membership in the International Monetary Fund.

The discussion focused on both political and economic developments in Poland in recent months. Secretary Haig outlined his view of the profound political implications of the Polish experiment in liberalization, the evolution of Soviet intentions and behavior toward Poland, the effect of events in Poland on Soviet foreign policy in general, the immediate need for approximately \$100 million in food relief, likely congressional reaction to various scenarios, and the dimensions of Polish economic assistance needs over the longer-term.

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The discussion also considered the immediacy of Poland's agricultural import needs, the appropriateness and legality of various ways of providing agricultural assistance, the need to act in concert with our allies, the possibility that any funds we provide will simply result in reduced Soviet outlays, the extent of consultations with our allies to date, the economic situations of the other major creditor nations — Britain, France, and West Germany, the amount of U.S. assistance during 1981 (\$1.1 billion in rescheduling and \$700 million in CCC credits), the need to distinguish between the short and long-term problem, the situation with respect to private commercial banks who have outstanding loans to Poland, and the need for further analysis.

Decision

The Council agreed to recommend to the President that the U.S. provide \$100 million in additional emergency food aid to Poland for FY 1982.

The Council requested the Departments of State and Treasury to jointly prepare additional analysis on Poland's political and economic situation over the longer term for consideration by the Council at its December 15 meeting. This analysis should include:

1. How much external economic and financial assistance Poland will require in 1982 and 1983 to meet its debt obligations and to finance its projected trade.
2. Based on past performance and our best estimate of future willingness and ability, the portion of this economic and financial assistance to Poland we expect the Soviet Union will provide, and what portion we expect western nations and creditors would need to provide.
3. Our best assessment of the burden sharing arrangements that we could gain agreement on among western nations and creditors.
4. The likely impact on the Polish economy if this aid is provided. The prospects for restoring a viable Polish economy that will not require large-scale external assistance.
5. The political and economic consequences in Poland if Poland's official and private creditors fail to provide the assistance needed to facilitate debt rescheduling.

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6. The political and economic consequences in western nations, particularly the United States, if Poland fails to receive the necessary financial assistance. The dangers, if any, Poland's default on its debts would pose to the banking system in the United States and Europe.
7. The degree assistance to Poland by foreign governments will result in less assistance by private banks through rescheduling.
8. The forms of aid U.S. assistance might take and to whom it would go.
9. The economic requirements, if any, western banks and governments can realistically impose on Poland as part of an assistance program in order to alleviate Poland's financial crisis over time.
10. The potential budgetary costs to the U.S. government over the next four or five fiscal years if Poland's economic situation remains critical and western nations agree to meet Poland's external financial needs.
11. The extent the budgetary implications of U.S. financial and economic assistance to Poland can be minimized by reprogramming existing foreign aid programs already included in the budget.

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EXECUTIVE SECRETARIAT

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Remarks:

Executive Secretary

Date